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PP RUEHCHI RUEHDT RUEHHM RUEHNH
DE RUEHPF #1156/01 2540930
ZNR UUUUU ZZH
P 110930Z SEP 07
FM AMEMBASSY PHNOM PENH
TO RUEHC/SECSTATE WASHINGTON DC PRIORITY
INFO RUCNASE/ASEAN MEMBER COLLECTIVE PRIORITY
RUEHC/DEPT OF LABOR WASHINGTON DC PRIORITY
RUCPDO/DEPT OF COMMERCE WASHINGTON DC PRIORITY

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SUBJECT: STEADY AS SHE GOES: CAMBODIA'S CONTINUED ECONOMIC
GROWTH HIGHLIGHTED AT GOVERNMENT-PRIVATE SECTOR FORUM

¶1. Summary. Business leaders and government officials gathered to tout economic reforms already made and highlight areas needing further attention during the 12th Government-Private Sector Forum, held September 5. Cambodia's economic growth and stability remain impressive, as the country expects GDP growth to top 9% this year while inflation should remain near 5%. Tourist arrivals are up 20%, and the government plans to create a new national airline. Bankers highlighted key prerequisites to the successful opening of a stock market, optimistically slated for 2009. Garment industry representatives lamented their labor woes, including the proliferation of unions and frequent illegal strikes. The Prime Minister ordered Defense Minister Tea Banh to put an end to the practice of military officials misappropriating military vehicles for transporting paying civilian customers. Hun Sen reminded the audience that, in Cambodia, the military is firmly under government control--and not above the law. End Summary.

¶2. The biannual Private Sector Forum is a plenary cabinet meeting open to the business community and broadcast live on all Cambodian television stations. Private sector co-chairs of eight working groups gave presentations on progress made on issues affecting the business environment and seized the opportunity of the Prime Minister's undivided attention to ask him to intervene on a variety of issues, from the proliferation of trade unions to the construction of a national highway.

Cambodia Maintains High Growth and Low Inflation

¶3. Finance Minister Keat Chhon opened the forum by highlighting Cambodia's continued macroeconomic success. After growing at 13.5% in 2005 and 10.8% in 2006, Cambodia's GDP growth is expected to remain strong at 9.1% for 2007. Low inflation levels--averaging less than 5% per year--steady exchange rates, and consistently growing international reserves all contribute to Cambodia's rosy economic picture, Chhon noted.

Tourism Up 20% as New Roads and Airline Aim to Push Tourism
Even Higher

¶4. Cambodia received nearly 1 million visitors in the first six months of 2007, a nearly 20% increase over the previous year, Ho Vandy, President of the Cambodia Association of Travel Agents, said in his speech on behalf of the Tourism Working Group. Tourism from the EU is growing particularly

quickly this year, he noted. Vandy called for the PM to push the delayed construction of a highway from Poipet to Siem Reap, a road that would open a direct overland route from Thailand to Angkor Wat.

15. Hun Sen encouraged progress on the draft Law on Tourism, directing the Ministry of Tourism to submit a draft of the law to the Ministry of Commerce by the end of September. He also criticized the National Assembly for being slow to pass legislation, and at two different points during the forum, called on the parliament to work longer hours and pass legislation more quickly. Ho Vandy publicized a recent decision by the Ministry of Tourism to re-establish a national airline. The PM was lukewarm on the proposal, noting that if the new airline would only lose money like Cambodia's previous flag carrier, Royal Air Cambodge, it would be better to build a new road instead.

Foreigners' Property Rights Broadened

16. Speaking on behalf the working group on law, tax, and good governance, Amciti lawyer Brett Sciaroni praised the PM's recent signing of a sub-decree on mortgages, long-term leases, and concessions. Sciaroni, who also has Cambodian citizenship, noted that the Law on Investment was amended in 2005 to allow foreigners--who are constitutionally forbidden from owning land--to own buildings and other fixed assets. However, implementing regulations had not been issued until recently, and thus the amendment had not been operationalized. In addition to welcoming the new sub-decree, Sciaroni urged the government to take the issue one step further by allowing foreigners to own apartments in buildings, something that is permitted in many other Asian countries, he noted. The PM referred the issue to the

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Constitutional Council.

Access to Finance a Key Stumbling Block

17. Both agriculture tycoon Mong Reththy and construction and automotive magnate Te Taing Por highlighted lack of access to finance as a key impediment to development in their sectors. Speaking on behalf of the agriculture working group, Reththy said that commercial banks are reluctant to lend for agricultural or agro-industrial investments because of confusion regarding agricultural licensing procedures, the relatively high risk of non-performance, and poor National Bank provisions for non-payment. Taing Por, who represented the manufacturing and small and medium enterprises (SME) working group, urged the government to establish a credit guarantee fund especially for SMEs.

18. Both men also called for greater progress on land registration. Taing Por noted that land is so widely used as collateral in Cambodia that speeding the land registration system is critical to making credit accessible to more entrepreneurs. Reththy referred to recent cases where government officials had approved land transactions when the seller did not have clear rights to the land, and called on the government to continue efforts to provide transparency in land transactions. In response, the PM noted that lack of transparency in land dealings can have expensive consequences, recalling that he recently ordered a private company to demolish newly constructed buildings and restore a partially drained lake. He indicated a desire to tackle the frequent land disputes in Cambodia, saying, "The Cambodian government is starting its offensive on land issues because a good offense is the best defense."

Bankers Urge Syndicated Lending, More Regulation

19. New investment in Cambodia is driving several new

financial sector initiatives, Charles Vann, Deputy General Manager of Cambodia's largest bank, reported. The banking industry and the National Bank support the introduction of syndicated loans, large loans in which a group of banks work together to provide funds, thereby sharing the risk of exposure. Vann highlighted the many foundational institutions and practices that should be in place before the country's stock market is launched: an interbank market, a strong and well-trusted regulatory environment, human capacity in the banking industry and among financial regulators, and passage of laws on accounting and auditing. (Note: The government's plans to open a stock market in 2009 strike many in the financial sector as premature and somewhat risky. End Note.) The Prime Minister noted the remarkable transformation of Cambodia's financial sector, saying, "The country which abolished cash (during the Khmer Rouge) will soon have a modern banking and stock market system."

PM Orders Military to Stop Using Vehicles for Private Transport

¶10. In response to an appeal from transportation working group chair So Nguon, the PM sternly ordered Defense Minister Tea Banh to put an end to the practice of military officers using official vehicles for private transport. Nguon had complained that private bus lines couldn't compete with the misappropriated military vehicles. The PM seemed frustrated as he noted that the government had recently spent more than USD 4 million to buy new trucks and other equipment for the military. Several times he firmly stated that while in other countries the military may control the government, in Cambodia, the military was under his control.

Too Many Unions, Too Many Illegal Strikes

¶11. Members of the trade facilitation and industrial relations working groups were unanimous in their views that the proliferation of trade unions and lack of legal penalties for illegal strikes are harming the garment industry. Van Sou Ieng, chairman of the Garment Manufacturers Association of Cambodia, noted that the Cambodian garment sector grew by 17% in the first seven months of 2007 and now employs more than 350,000 workers. Cambodia is the 9th largest exporter of apparel to the U.S. Yet labor problems threaten the

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sector's competitiveness. There are more than 1,100 registered unions for just 300 factories. The competition of unions within factories fuels labor unrest and forces factory managers to spend an inordinate amount of time negotiating with multiple unions. Sou Ieng also decried the lack of legal reprisal for workers who strike illegally, and called for the government to protect workers who want to work from harassment by striking colleagues. (Note: Cambodian labor law provides for a fine of 61 to 90 times the daily base wage for union leaders who engage in "activities extraneous to their exclusive objective," presumably covering illegal actions such as harassment, intimidation, and illegal strikes. End Note.)

¶12. Industrial relations working group co-chair Nang Sothy noted that the working group had agreed to recommend clarifying legal requirements for short term contracts via an amendment to the law rather than a sub-decree. (Comment: The garment industry would like to be able to hire workers on one short-term contract after another for an indefinite period of time. The Arbitration Council has ruled that a legal provision limiting short term contracts to two years applies to serial short term contracts as well as to a single contract. Labor observers feared that issuing a sub-decree to overturn this ruling would not only open the door to more labor abuses generated by the job insecurity of endless short term contracts, but would also set a dangerous precedent of a mere sub-decree overturning an Arbitration Council ruling.

End comment.)

¶13. The Prime Minister, who is often sympathetic to the labor woes of the garment industry, seemed to take special care not to offend workers in his response. "Respect for worker's rights is part of human rights," he said. He thanked the workers and unions who supported a recent amendment to the Labor Law which established a night shift wage of 130% of normal daily wages. He appealed to workers and employers to resolve problems without resorting to strikes. However, he seemed a bit confused by the proposal to implement legal procedures for certifying one factory as "most representative"--part of the effort to reduce competition among multiple unions at one factory--incorrectly stating that this would be unconstitutional.

Comment

¶14. This Private Sector Forum was perhaps more notable for what it lacked than what it contained. Absent from this year's meeting were Hun Sen's histrionics and grand gestures. In past years the PM has seized on the opportunity of having a captive audience and a live TV broadcast to go on the attack about unrelated issues, such as UN Human Rights representative Yash Ghai, the World Bank's corruption allegations, or criticism of the border treaty with Vietnam. The Private Sector Forum has also historically been a moment for the PM to grant big favors, such as extending the garment sector's tax holiday by two years. Last week's event saw none of these theatrical moments, and instead was refreshing as the PM, possibly with an eye toward upcoming national elections, took reasonable stances on all manner of private sector issues.

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